

of medical students, interns, residents, and nurses (e.g., a “teaching hospital”).

(c) *Obligation issued for housing purposes.* An obligation issued for housing purposes may qualify as a Type II security if the security otherwise meets the criteria for a Type II security.

PART 2—SALES OF CREDIT LIFE INSURANCE

Sec.

2.1 Authority, purpose, and scope.

2.2 Definitions.

2.3 Distribution of credit life insurance income.

2.4 Bonus and incentive plans.

2.5 Bank compensation.

AUTHORITY: 12 U.S.C. 24 (Seventh), 93a, and 1818(n).

SOURCE: 61 FR 51781, Oct. 4, 1996, unless otherwise noted.

§2.1 Authority, purpose, and scope.

(a) *Authority.* A national bank may provide credit life insurance to loan customers pursuant to 12 U.S.C. 24 (Seventh).

(b) *Purpose.* The purpose of this part is to set forth the principles and standards that apply to a national bank’s provision of credit life insurance and the limitations that apply to the receipt of income from those sales by certain individuals and entities associated with the bank.

(c) *Scope.* This part applies to the provision of credit life insurance by any national bank employee, officer, director, or principal shareholder, and certain entities in which such persons own an interest of more than ten percent.

§2.2 Definitions.

(a) *Bank* means a national banking association or a bank located in the District of Columbia and subject to the supervision of the Comptroller of the Currency.

(b) *Credit life insurance* means credit life, health, and accident insurance, sometimes referred to as credit life and disability insurance, and mortgage life and disability insurance.

(c) *Owning an interest* includes:

(1) Ownership through a spouse or minor child;

(2) Ownership through a broker, nominee, or other agent; or

(3) Ownership through any corporation, partnership, association, joint venture, or proprietorship, that is controlled by the director, officer, employee, or principal shareholder of the bank.

(d) *Officer, director, employee, or principal shareholder* includes the spouse and minor children of an officer, director, employee, or principal shareholder.

(e) *Principal shareholder* means any shareholder who directly or indirectly owns or controls an interest of more than ten percent of the bank’s outstanding voting securities.

§2.3 Distribution of credit life insurance income.

(a) Distribution of credit life insurance income by a national bank must be consistent with the requirements and principles of this section.

(b) It is an unsafe and unsound practice for any director, officer, employee, or principal shareholder of a national bank (including any entity in which this person owns an interest of more than ten percent), who is involved in the sale of credit life insurance to loan customers of the national bank, to take advantage of that business opportunity for personal profit. Recommendations to customers to buy insurance should be based on the benefits of the policy, not the commissions received from the sale.

(c) Except as provided in §§2.4 and 2.5(b), and paragraph (d) of this section, a director, officer, employee, or principal shareholder of a national bank, or an entity in which such person owns an interest of more than ten percent, may not retain commissions or other income from the sale of credit life insurance in connection with any loan made by that bank, and income from credit life insurance sales to loan customers must be credited to the income accounts of the bank.

(d) The requirements of paragraph (c) of this section do not apply to a director, officer, employee, or principal shareholder if:

(1) The person is employed by a third party that has contracted with the bank on an arm’s-length basis to sell